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NATIONAL INTELLIGENCE DAILY CABLE

Thursday September 1, 1977

CG NIDC 77-204C

NATIONAL SECURITY INFORMATION
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DIA review(s) completed.

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National Intelligence Daily Cable for Thursday, 1 September 1977.

The NID Cable is for the purpose of informing senior US officials.

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POLAND: Panic Buying and Hoarding

25X1 [] Harvest shortfalls caused by floods have resulted in hoarding of flour, rice, and groats by Polish consumers, and serious shortages of these staples could develop. The regime has told the public that supplies will be sufficient to meet demand, but such assurances will not satisfy consumers once they see empty shelves.

25X1 [] Twice last week the Warsaw daily *Zycie Warszawy* published stories of "panicky" consumers who had been buying up available stocks of flour "for a rainy day." The paper admitted that "many" stores had run out of supplies.

25X1 [] We do not know how widespread the hoarding is, but the fact that this sensitive subject has been raised publicly is indicative of high-level concern. In recent years Polish consumers have been prone to hoard at the first sign or rumor of a shortage. Once a hoarding cycle begins, it is difficult to halt.

25X1 [] Last summer, consumers were convinced that there was a shortage of sugar, and the government finally had to impose rationing in order to assure equitable distribution. If it cannot quash the rumors or keep local stores supplied with grain staples this month, it could be forced to adopt another rationing plan.

25X1 [] The regime had been counting on a good harvest to help boost livestock production and thus curb discontent over continuing meat and other food shortages. This, the third successive inadequate grain harvest, will assure that discontent remains high and could exacerbate political infighting within the leadership. []

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ISRAEL: Labor Party Disarray

25X1 [] The US Embassy in Tel Aviv has reported recently on the problems confronting Israel's Labor Party. We agree that the party faces formidable obstacles as it attempts to recover from its election defeat in May.

25X1 [] The Embassy reports that the Israeli Labor Party has yet to emerge from the doldrums of its election defeat and

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seems unlikely to be able to oppose the Begin government effectively for some time. Burdened with a largely discredited leadership and serious factional divisions, Labor continues to lose popular support.

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[] A recent public opinion poll indicated that if a national election were held now, Labor's parliamentary strength would drop from its present 32 seats to 24, while Begin's Likud Party would win an unprecedented outright majority. The same poll also showed that nearly 70 percent of the electorate thought Begin was the best choice for prime minister; less than 10 percent favored former Labor Prime Minister Rabin, Begin's closest competitor.

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[] In contrast to Begin's strong leadership of his party and the government, Labor's ranks remain split at nearly all levels. Labor's leadership continues to suffer from the rivalry between party chairman Peres and Rabin.

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[] Although Rabin is still regarded as head of the party's centrist Mapai faction, his inept leadership as prime minister and the revelation of his illegal bank accounts in the US are credited by most party members as prime factors in Labor's defeat at the polls last spring. Rabin, accordingly, has little chance of replacing Peres at the party's top spot or serving again as prime minister. His sniping has served mainly to disrupt Peres' attempts to unify the party's squabbling factions.

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[] In addition to personal feuding, the party also is split over what strategy to adopt in opposition. On the left, leaders of the Ahdut Ha'Avoda faction are quarreling over the degree of militancy the party should assume. Some argue in favor of a close alliance with the Mapam party, Labor's small left-wing partner in the Labor Alignment, and for aggressive opposition to Begin on all fronts. In particular, these militants favor using Labor's control of the giant Histadrut labor federation to challenge government economic and social policies.

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[] Many in the Ahdut faction and the party generally regard this strategy as unrealistic. They suspect the militants' approach could enable Begin to turn the tables on Labor by cutting off vital government subsidies and support for the Histadrut's wide-ranging business and labor enterprises.

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[] Many Ahdut leaders reportedly also suspect that Peres, himself a hardliner on many Arab-Israeli issues, and other party conservatives are looking for an opportunity to break away from the party and join a Likud-dominated national unity government, possibly in tandem with disgruntled members of the Democratic Movement for Change.

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[] While the threat of an imminent war with the Arabs or a serious confrontation with the US over peace negotiations might well provoke such a development, it seems unlikely for the present. Peres and conservative Democratic Movement leaders probably aim for the time being to keep their distance from Begin. In particular, they probably hope to exploit the criticism leveled at Begin for his recent decisions on Jewish settlements on the occupied West Bank, which some sectors of the electorate have seen as poorly timed and as likely to damage US-Israeli relations.

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[] Some moderate Labor leaders are pushing for the formation of a new political coalition made up of centrist Labor groups, the Democratic Movement, and the Liberal wing of Likud and excluding both the Ahdut faction and Mapam.

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[] Such a prospect is unlikely to be attractive either to the Liberals in Likud, who have every reason to be satisfied with their politically profitable marriage to Begin, or to the Democratic Movement. Many Democratic Movement leaders would fear domination by Labor or at the least would be apprehensive that the Democratic Movement's reformist credentials would be destroyed.

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[] Peres has conceded privately that it will take some time to reorganize his party and rejuvenate its image. Among the party's top priorities will be to win back former Labor supporters who defected to the Democratic Movement and to make inroads into Likud's popularity among younger voters and disadvantaged Jews who immigrated to Israel from North Africa and Asia.

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[] Labor also faces the problem of presenting viable alternatives to the policies of the Begin government. Peres' and Rabin's criticism of Begin's handling of US-Israeli relations, for instance, have been somewhat muted, partly because of the reluctance of Labor leaders to undermine Begin's position at home on the eve of possible crucial peace negotiations.

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[] Begin and Foreign Minister Dayan, moreover, have proven skillful in blurring differences between Labor and Likud on peace issues by stressing the two parties' agreement on many key points, including their opposition to a Palestinian state on the West Bank, the participation of the Palestine Liberation Organization in Geneva peace talks, and Israeli withdrawals to the pre-June 1967 borders. Labor leaders probably hope that they will be in a better position to offer alternatives to Likud on domestic issues and may seek to do so when the government eventually comes before the Knesset to present its economic and social programs. []

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RHODESIA-ZAMBIA: Feira Air Strike

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[] The Zambian Government yesterday announced that Rhodesian aircraft had dropped several bombs at Feira in southeast Zambia near the Rhodesian and Mozambican borders.

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[] The incident reportedly was preceded by an exchange of fire between Zambian and Rhodesian troops. The initial Zambian statement, however, termed the attack "preplanned," and a shrill reaction can be expected. President Kaunda recently predicted Zambia would be attacked by air from Rhodesia.

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[] This would be, if confirmed, the first known Rhodesian air strike into Zambia, although there have been numerous such raids into Mozambique. The Rhodesians may have spotted a guerrilla group in the area; there have been numerous cross-border firing incidents in recent weeks. They may also have intended the air attack as a warning to the Zambians to clamp down on guerrilla activity originating in Zambia. A Rhodesian communique said only that two positions on the Zambian side of the border had been "neutralized," without indicating the method.

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RHODESIA: Election Returns

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[] Rhodesian Prime Minister Smith appears to have won in yesterday's election the mandate he was seeking to proceed with his own settlement plan. By late in the day, his Rhodesian Front had won in the 35 white constituencies where vote counting had been completed. The party took almost 90 percent of the

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vote in these constituencies, suggesting that its candidates very likely will also gain most of the remaining 15 seats reserved for whites in the 66-seat parliament.

25X1 [] Even the incomplete returns show a sharp rebuff for the two opposition parties that sought to challenge Smith's leadership of the whites. The right-wing Rhodesian Action Party, formed recently by 12 members of Parliament who broke with Smith's party, opposes any constitutional settlement that would result in black majority rule. The liberal National Unifying Force advocates acceptance of the British-US settlement proposals.

25X1 [] Smith is meeting today with Ambassador Young and British Foreign Secretary Owen on the British-US proposals, even though during the election campaign he indicated that he would take a victory as a mandate to go ahead with his own settlement plan. According to one press report, he will soon announce the names of moderate black nationalists whom he will invite to join a new broad-based government. [] 25X1

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CYPRUS: Makarios' Successor

25X1 [] *Although Spyros Kyprianou yesterday was declared interim President of Cyprus to fill out the remainder of the late President Makarios' term, the contest to fill Makarios' other role as Archbishop is in full swing. Given the Church's formidable political clout, the results of the contest will have a major bearing on the regularly scheduled presidential election in February.*

25X1 [] The Archbishop of the Orthodox Church of Cyprus is selected in a three-tiered indirect popular election that is not expected to be completed before late November. The front-runner is the acting Archbishop, Bishop Chrysostomos of Paphos, who was close to Makarios before the latter came to resent his aggressiveness. Chrysostomos has exhibited a propensity for political involvement and for ultra-nationalist and leftist rhetoric--a trait that is not unusual among members of the Greek Cypriot clergy.

25X1 [] Chrysostomos has secured the support of the "coalition" behind Kyprianou--the interim President's centrist Democratic Front and the Communist and Socialist parties. In return, Chrysostomos apparently has agreed to support Kyprianou for the presidency in February.

25X1 [] //Pitted against Chrysostomos is Bishop Chrysanthos of Limassol, who was also close to Makarios. 25X1 Chrysanthos is known for his probity and general moderation as well as his belief that the Church should lessen its involvement in politics.

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25X1 [] Chrysanthos has come under pressure from supporters of Chrysostomos to withdraw; last week there was an apparent attempt to bomb his residence. He is said to be despondent and contemplating dropping out of the race on the grounds that it has been politicized and that its outcome is a foregone conclusion.

25X1 [] If, as seems likely, Chrysostomos is elected Archbishop, he can be expected to involve himself heavily in the presidential campaign and in the domestic and foreign policies of the Greek Cypriot community, using the prestige of his office and the Church's vast wealth as instruments of influence. Although there is a slight chance he may even make a play for the presidency, he is more likely to support Kyprianou.

25X1 [] Chrysostomos' backing, together with support from the left--which views Kyprianou as the most malleable candidate--will make Kyprianou a formidable contender if illness or pressure from his centrist and rightist colleagues do not force him to withdraw. If he does withdraw, Chrysostomos might be tempted to run himself. Alternatively, Chrysostomos could throw his support to someone like Greek Cypriot negotiator Tassos Papadopoulos or a nonpolitical candidate. He is unlikely to support Clerides.

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USSR-US: Attack on Toth Revived

25X1 [] After a six-week silence on the subject, Soviet media yesterday revived the attack on Los Angeles Times newsman Robert

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Toth, who was interrogated at length by the KGB before leaving Moscow last June and was subsequently charged by Tass with engaging in espionage.

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[] A long article in yesterday's *Literary Gazette* sought to document this charge by quoting from a letter allegedly sent to Toth by a former US Embassy military attache. The *Literary Gazette* piece is part of an ongoing Soviet effort to restrict the access of Westerners to the local population in the USSR by portraying unofficial contacts between Western newsmen and embassy officials with Soviet citizens as constituting espionage. Typically, the *Literary Gazette* article concludes that the US desire for a "free flow of information" is a subterfuge designed to facilitate the collection of intelligence information in the USSR.

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[] The harshness of the *Literary Gazette* article was tempered by two facts. Consistent with other Soviet press attacks on US Embassy officials this year, yesterday's article named only US officials no longer stationed in the USSR. Second, the article did not link Toth's activities to the investigation of any Soviet dissident.

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[] Earlier KGB questioning of Toth had focused on his relationship with arrested Jewish dissident Anatoly Shcharansky, who may eventually be tried for treason and who has previously been attacked by name in the Soviet press. A Foreign Ministry official, when questioned about the article by a US Embassy official, said he thought the article was directed at Soviet readership as a response to the Western defense of Toth that many Soviets had heard on the Voice of America and "from other sources." []

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USSR-SOMALIA: Siad Visit Ends

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[] //The Soviet news agency Tass announced yesterday that Somali President Siad had left Moscow after two days of discussions with Premier Kosygin, senior party secretary and ideologist Suslov, and Foreign Minister Gromyko. Siad apparently did not meet with President Brezhnev, who is reportedly vacationing in the Crimea. //

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[] //In reporting Siad's visit, Tass noted that both "sides exchanged opinions on questions of mutual interest,"

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an indication that the Soviets and Somalis could find little to agree on and are still at loggerheads over Somalia's role in the Ogaden. Siad's visit was in response to a request from Brezhnev, who reportedly dispatched a plane to Mogadiscio to bring the Somali President to Moscow. The invitation was part of Moscow's continuing effort to mediate the Somali-Ethiopian conflict.//

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[redacted] //According to the official Egyptian news agency, Siad stopped in Cairo on his return trip yesterday and talked with President Sadat. Siad has sought close cooperation with Egypt on Red Sea security matters, and he no doubt briefed Sadat on his talks with Soviet leaders. Siad very likely also pressed Sadat for more military aid in Somalia's struggle against Ethiopia. [redacted]

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FRANCE: Fifth Missile Submarine

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[redacted] //France will launch the fifth, and last, of its Redoutable-class ballistic missile submarines this month. Instead of building more of this class, the French are developing a new submarine to be armed with multiple-warhead missiles. The first of the new class is likely to be operational in the mid-1980s.//

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[redacted] //The last Redoutable-class submarine, called the Tonnant, will be launched from Cherbourg on 17 September, according to US defense attaches in Paris. It will have to undergo outfitting and sea trials and probably will not enter active service until 1980. The Tonnant will be equipped with new M-20 missiles, each of which can carry a one-megaton warhead to a range of some 3,000 kilometers.//

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[redacted] //France had originally planned to build a sixth submarine of this class but suspended construction last year. The sixth boat is now expected to be the first of a new, smaller class of submarine armed with M-4 multiple warhead missiles.//

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SWEDEN-USSR: Baltic Fishing Zones

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[] *The USSR and Sweden, contrary to earlier expectations, apparently are ready to work out a compromise on fishing zones in the Baltic Sea.*

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[] The Soviets had been expected to stand firmly with other Baltic states in opposition to Sweden's claim to 45 percent of the Baltic as its fishing zone. In the past Moscow had refused to discuss national fishing zones in the Baltic, preferring instead the present catch-quota system.

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[] The Soviets' apparent willingness to work out an arrangement with Sweden will serve to soften the strong objections of the other littoral states voiced shortly after the Swedish announced their claim. The littoral states will meet next week in Warsaw.

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[] Finland, which is concerned about maintaining good relations with the USSR and Western countries, feared that a prolonged dispute could develop between the USSR and Sweden. Denmark, West Germany, Poland, and East Germany will have little choice but to follow the pattern set by the Soviets. []

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BRIEFS

France

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[] //France announced yesterday a modest package of reflationary measures, as expected. Prime Minister Barre told reporters that the measures include supplementary credits for large industrial projects, aid for public works, allowances for school children, financing for subsidized housing, and a reduction in the discount rate. The package is valued at about \$800 million.//

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[] //These measures will give a small boost to the economy while not violating Barre's basic policy of fighting

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inflation. The economic impact will not be great, but the measures will demonstrate the government's concern over slow economic growth. Barre undoubtedly hopes to defuse some of the left's criticism of his handling of the economy before the elections next March. [REDACTED]

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Finland

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[REDACTED] Finland announced a 3-percent devaluation of its currency on Wednesday. The decision to devalue the Finnmark by less than the recent Swedish devaluation of 10 percent probably is aimed at trying to limit political rhetoric during the presidential campaign this fall and to mollify the labor unions. In April, Finland devalued by nearly the same amount as Sweden.

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[REDACTED] A devaluation at this time in step with Sweden's would trigger nationwide labor contract negotiations. Finland's governing five-party, left-center coalition, put together by President Kekkonen in June, could be pulled apart if labor troubles were added to economic stabilization efforts now under way. [REDACTED]

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China-Yugoslavia

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[REDACTED] On the second day of his state visit to China, Yugoslav President Tito continued to receive the warmest Chinese welcome for a foreign visitor in recent memory. He held "cordial and friendly" talks yesterday with Chairman Hua Kuo-feng and became the first foreigner to pay his respects at the mausoleum of Mao Tse-tung. Four of China's top five leaders have now met with Tito, clearly demonstrating Peking's intention to counter Moscow by strengthening ties with Belgrade. [REDACTED]

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